

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Otsego	County Allegan
Fiscal Year End 6/30/06	Opinion Date 8/10/06	Date Audit Report Submitted to State 10/31/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

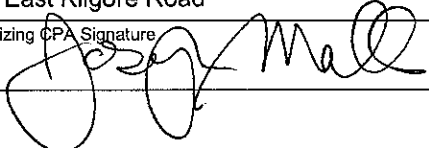
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Nothing to report	
Other (Describe)	<input type="checkbox"/>	No other documents required	
Certified Public Accountant (Firm Name) Siegfried Crandall PC		Telephone Number 269-381-4970	
Street Address 246 East Kilgore Road		City Kalamazoo	State MI
Zip 49002			
Authorizing CPA Signature 		Printed Name Joseph M Walls, CPA	License Number 1101013696

City of Otsego
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2006

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - x
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS:	
Government-wide financial statements:	
Statement of net assets	4
Statement of activities	5
Fund financial statements:	
Balance sheet - governmental funds	6
Statement of revenues, expenditures, and changes in fund balances - governmental funds	7
Statement of net assets - proprietary funds	8
Statement of revenues, expenses and changes in fund net assets - Proprietary funds	9
Statement of cash flows - proprietary funds	10
Statement of net assets - fiduciary funds	11
Notes to financial statements	12 - 21
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary comparison schedule:	
General Fund	22
Street and Bridge Fund	23
SUPPLEMENTARY INFORMATION:	
Combining balance sheet - non-major governmental funds	24
Combining statement of revenues, expenditures and changes in fund balances - non-major governmental funds	25
Balance sheets - governmental funds	26
Statement of revenues, expenditures, and changes in fund balance - budget and actual:	
General Fund	27 - 28
Major Street Fund	29
Local Street Fund	30
Street and Bridge Fund	31
Special Assessment Capital Project Fund	32

CONTENTS (Continued)

	<i>Page</i>
Statement of revenues, expenses, and changes in net assets - budget and actual:	
Sewer Fund	33
Water Fund	34
Capital Project Fund	35
DPW Equipment Fund	36
Downtown Development Authority:	
Balance sheet	37
Statement of revenues, expenditures and changes in fund balance - budget and actual	38

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is intended as a narrative overview of the City of Otsego's operations over the fiscal year and its financial condition on June 30, 2006.

Financial Highlights

- \$ The City's total net assets increased \$323,517, or 2.5 percent, as a result of this year's operations. Net assets of the governmental activities increased \$302,573, or 4.8 percent, whereas net assets of the business-type activities increased \$20,944, or 0.3 percent.
- \$ Of the \$13,137,869 total net assets reported, \$3,708,539 is available to be used to meet future operating and capital improvement needs.
- \$ The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$906,692, which represents 45.2 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements that follow this section. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and support to the information provided in the basic financial statements.

This is the third year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns that add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The Statement of Net Assets reports all of the City's assets and liabilities along with the difference between the two, which is identified as the net assets. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc) with capital assets. Increases and decreases in net assets may serve as an indicator over time as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This statement also shows the change in the City's net assets over the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Both of the government-wide financial statements report three types of activities:

1. *Governmental Activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-Type Activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private sector type operations, water and sewer services. The City operates a third activity referred to as the Land Development Fund which is classified as a business-type activity because it currently involves residential plat development, which is recovered through the sale of lots.
3. *Discretely Presented Component Units.* Component units are legally separate organizations which the City (the City Commission) can exercise influence and/or for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

Fund Financial Statements

Fund financial statements are presented in a manner similar to the reporting format of prior years. These detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting, is necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenue or expenditures must be at least 10 percent of the total assets, liabilities, revenue or expenditures for all funds of that category or type.

The City's funds are classified into three categories which each use a different accounting approach:

1. *Government Funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental fund statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Assets and Statement of Activities and the governmental fund statements is reconciled in the financial statements. Governmental funds include the General Fund, special revenue funds, capital project funds, and debt service funds.
2. *Proprietary Funds.* Proprietary funds account for the expenditures involved in providing particular services to customer who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting which is the same method used by private sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses internal service funds to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.

3. *Fiduciary Funds.* These funds record the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. These funds are not reported in the government-wide financial statement because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Fund. This fund is also reported using accrual accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is necessary to understand of data reported in the government-wide and fund financial statements.

Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary Information

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes governmental fund balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial Analysis of the Government as a Whole

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Statement of Net Assets reveals favorable or positive balances in all three of the government-wide columns (Governmental Activities, Business-Type Activities and Totals), as well as the Component Unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Assets is shown in Table 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$13,137,869. However, the majority of the City's net assets (59.4 percent) represent an investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, buildings and equipment) less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, total net assets increased by 2.5 percent. This can be mostly attributed to an increase in current assets, namely cash, and a decrease in liabilities, including debt repayment. Although the change in current assets can be attributed to reduced capital spending, the change in liabilities may likely be attributed to timing of accounts payable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A total of \$1,627,077 of the City's net assets are restricted for public works and bond debt repayment. The City may use the remaining balance of unrestricted net assets of \$3,708,539 to meet its ongoing obligations to citizens and creditors. Unrestricted net assets for government activities grew by 8.8 percent for the fiscal year, and unrestricted assets for the business type activities grew by 2.1 percent. Again, the governmental activity growth can be largely attributed to revenue increases and planned expenditure reductions as the administration took a conservative approach to the cool economic climate. The current level of unrestricted net assets for governmental activities represents about 61 percent of the past fiscal year's expenses. The unrestricted assets are not necessarily cash or cash equivalents and this unrestricted net asset balance could easily be depleted in one or more substantial capital improvement projects or the continued economic downturn.

Table 1

Statement of Net Assets – Two Year Comparison
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Assets						
Current Assets	\$ 2,580	\$ 2,975	\$ 2,398	\$ 2,385	\$ 4,978	\$ 5,360
Noncurrent Assets	\$ 3,925	\$ 3,800	\$ 5,063	\$ 4,917	\$ 8,988	\$ 8,717
Total Assets	\$ 6,505	\$ 6,775	\$ 7,461	\$ 7,302	\$ 13,966	\$ 14,077
Liabilities						
Current Liabilities	\$ 133	\$ 95	\$ 215	\$ 225	\$ 347	\$ 320
Noncurrent Liabilities	\$ 106	\$ 111	\$ 698	\$ 508	\$ 804	\$ 619
Total Liabilities	\$ 239	\$ 206	\$ 913	\$ 733	\$ 1,152	\$ 939
Net Assets						
Capital Assets Net of Debt	\$ 3,836	\$ 3,727	\$ 4,095	\$ 4,075	\$ 7,932	\$ 7,802
Restricted Assets	\$ 1,133	\$ 1,430	\$ 203	\$ 197	\$ 1,336	\$ 1,627
Unrestricted Assets	\$ 1,298	\$ 1,412	\$ 2,249	\$ 2,297	\$ 3,547	\$ 3,709
Total Net Assets	\$ 6,267	\$ 6,569	\$ 6,548	\$ 6,569	\$ 12,814	\$ 13,138

City of Otsego
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Activities

A similar two-year comparison of the Statement of Activities is shown in Table 2. This table identifies many of the substantial changes that occurred in revenues and expenditures over the fiscal year.

A review of the Program Revenues shows a substantial decrease in charges for services, especially for business type activities. The decrease in the business-type activities can be largely attributed to the closure of the Menasha paper mill and its subsequent reduction in water utility use, and a reduction in revenues from the sale of property in the Capital Project Fund. Reductions in charges for services for governmental-type activities can be partially attributed to reduced spending in the fire department which subsequently reduced the amount paid by Otsego Township for its respective share of the expenditures.

Other notable differences in revenues occurred in regards to property tax revenue and investment income. In fiscal 2005-06, the DDA captured 100 percent of the tax increment financing (TIF) revenues available, whereas in fiscal 2004-05 the authority only captured 60 percent. Therefore, the increased capture reduced property tax revenues available to the General Fund. Investment income, however, shows a significant increase due to market conditions and increases in funds available to be invested.

Under expenses, most programs show decreases and three show modest increases from the prior year. These decreases were anticipated as the budget was developed in an effort to reduce cost. The reduction in land development is because decrease in sales compared to fiscal 2004-05.

Governmental activities increased the City's net assets by \$302,573, thereby accounting for 93.5 percent of the total growth in the net assets of the City. The growth in governmental activity net assets was more than 55 percent of those realized in fiscal 2004-05. The key factor causing this increase was the conservative budgeting of operational expenses in anticipation of further reductions in State Shared Revenues.

Business-type activities increased the City's net assets by \$20,944, accounting for the remaining 6.5 percent of the total growth in the City's net assets. Although business-type net assets continued to increase, the growth of these net assets decreased more than 90 percent from those realized in fiscal 2004-05. Key factors which allow the continued growth of business-type net assets are as follows:

- \$ Continued conservative budgeting due to an anticipated reduction in industrial utility use,
- \$ Revenue levels exceeding expenses that resulted in additions to fund net assets.

A review of the business-type activities shows notable decreases in the charges for services and land development expense. These decreases may be attributed to reductions in residential and commercial lot sales in the Capital Project Fund and a major reduction in water consumption in the Water Fund because of the Menasha paper mill closure.

City of Otsego
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Table 2

Statement of Activities - Two Year Comparison
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
Program Revenues						
Charges for Services	\$ 207	\$ 181	\$ 1,406	\$ 894	\$ 1,613	\$ 1,075
Operating Grants & Contributions	\$ 330	\$ 461	\$ -	\$ -	\$ 330	\$ 461
Capital Grants & Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General Revenues						
Property Taxes	\$ 1,408	\$ 1,299	\$ -	\$ -	\$ 1,408	\$ 1,299
Public Service Tax	\$ 117	\$ 113	\$ -	\$ -	\$ 117	\$ 113
State Grants	\$ 397	\$ 393	\$ -	\$ -	\$ 397	\$ 393
Franchise Fees	\$ 32	\$ 34	\$ -	\$ -	\$ 32	\$ 34
Investment Income	\$ 50	\$ 123	\$ 36	\$ 64	\$ 87	\$ 187
Other Revenue	\$ 25	\$ 14	\$ -	\$ -	\$ 25	\$ 14
Transfers	\$ 0	\$ 0	\$ 0	\$ 7	\$ 0	\$ 7
Gain (loss) on Sale of Fixed Assets	\$ (45)	\$ 0	\$ -	\$ -	\$ (45)	\$ 0
Total Revenues	\$ 2,521	\$ 2,618	\$ 1,442	\$ 965	\$ 3,963	\$ 3,583
Program Expenses						
Legislative	\$ 12	\$ 10	\$ -	\$ -	\$ 12	\$ 10
General Government	\$ 504	\$ 511	\$ -	\$ -	\$ 504	\$ 511
Public Safety	\$ 1,047	\$ 1,022	\$ -	\$ -	\$ 1,047	\$ 1,022
Public Works	\$ 653	\$ 673	\$ -	\$ -	\$ 653	\$ 673
Community and Economic Dev.	\$ 2	\$ 2	\$ -	\$ -	\$ 2	\$ 2
Parks & Recreation	\$ 109	\$ 98	\$ -	\$ -	\$ 109	\$ 98
Land Development	\$ -	\$ -	\$ 287	\$ 66	\$ 287	\$ 66
Sewer	\$ -	\$ -	\$ 529	\$ 489	\$ 529	\$ 489
Water	\$ -	\$ -	\$ 403	\$ 389	\$ 403	\$ 389
Total Expenses	\$ 2,326	\$ 2,316	\$ 1,219	\$ 944	\$ 3,545	\$ 3,260
Changes in Net Assets	\$ 195	\$ 302	\$ 224	\$ 21	\$ 418	\$ 323

Financial Analysis of the City's Funds

The last section of the financial report, entitled "Supplementary Information," includes balance sheets and statements of revenues, expenditures and changes in fund balance in more detail for each of the City's funds. The latter statement also includes the amended budgets as adopted and approved for each fund. These reports will likely be more familiar to city commissioners and staff as they are more closely formatted in a manner similar to the monthly financials reports.

General Fund

The General Fund is the chief operating fund of the City. At the end of the fiscal year, total unreserved fund balance was \$986,692. During the year, an additional \$20,000 was added to the designated, unreserved fund balance, which now totals \$80,000 for the future replacement of a fire truck. The increase in unreserved fund balance can be attributed to reduced or delayed equipment purchases in anticipation of possible cash shortages and an overall effort to reduce unnecessary operational costs while continuing to maintain services. The administration believed there could be further reductions in State Shared Revenues and also realized that property tax revenues would be reduced because the TIF capture which funds the DDA's activities would be increased to by 40 percent for this and the next several fiscal years.

The differences between the original budget and the final amended budget for revenue and expenditures were \$135,223 and \$139,823, respectively. This amounted for roughly a 6.9 percent increase in both revenues and expenditures. The primary reason behind the increases was the award of a \$101,270 federal grant (FEMA) to the Fire Department for the purchase of new breathing apparatus and an air compressor. Expenditures were \$152,444 less than budgeted, however. The difference between the actual and budgeted amounts can be largely attributed to cost containment measures by department administration. Consequently, the General Fund continues to maintain a healthy unrestricted fund balance in excess of the recommended 25 to 30 percent of expenditures. This allows the City to maintain its current level of services during the current economic downturn. The General Fund total fund balance increased by \$124,872, and totaled \$987,654 at year-end.

Street & Bridge Fund

The Street and Bridge Fund is a special revenue fund where the City records a portion of the road tax collected by Allegan County. Because the county does not maintain any roads within the City, and there are no agreements otherwise between the county and the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance in accordance with Michigan Compiled Laws 224.20b. Revenues exceeded the transfer to the Local Street Fund, so that fund balance increased by \$136,566, 23.3 percent, to \$722,391.

Special Assessment Capital Project Fund

The fund did not provide any resources to capital improvement projects, and realized a 15.5 percent increase in fund balance from the collection of outstanding special assessments and investment interest. Unreserved fund balance available for future capital improvement projects now totals \$289,711.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.44 miles of major streets as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. Because there were no capital improvement projects, cost containment within the operations and maintenance budget increased fund balance by \$139,182 to \$454,297. This fund balance will be available for future capital improvement projects.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 12.7 miles of local streets as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated future street maintenance costs. Revenues and other sources, including a \$3,360 transfer from the Street & Bridge Fund, exceeded expenditures by \$23,847, increasing fund balance to \$252,155. This fund balance will be available for future capital improvement projects

City of Otsego
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Sewer Fund

Total revenues were \$32,379, or 5.2 percent less than original projections. Charges for services were \$35,491 or 5.8 percent less than projected. Even with less than expected revenues and increased expenses, Total Net Assets increased \$153,383 or 3.9 percent over the fiscal year due to cost containment and postponement of a capital improvement project to increase plant efficiency and reduce the use of chlorine gas. Total Net Assets are \$4,065,125 at year-end.

Water Fund

Total revenues were less than projected by \$148,071, or 35.0 percent. Charges for services, however, were less than the amount budgeted by \$151,103 or 36.7 percent. Again, the majority of this decrease can be attributed to the closure of the Menasha paper mill which was the City's largest water user. Total operating expenses were less than projections by \$10,430, or 2.7 percent. Although sales of water were less this fiscal year, operating expenses did not see a corresponding reduction because costs for supplies and power continued to increase. Total Net Assets decreased \$93,232 or 4.7 percent over the fiscal year. Total Net Assets are \$1,886,287 at year-end.

Capital Project Fund (formerly the Land Development Fund)

This fund is also a proprietary fund and has been involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. During the fiscal year, one residential lot was sold, leaving 28 lots available for sale. Two commercial lots remain available for sale at year-end. The value of the lots held as inventory at year-end totaled \$866,778. Lot sales of \$26,923 during the fiscal year exceeded the related development costs of \$19,126, yielding a profit on sales of \$7,797. Taking other expenses into consideration, namely property taxes on the unsold lots, net assets decreased by \$33,411 or 5.1 percent to \$623,704.

DPW Equipment Fund

Operating revenues and expenses were both less than projected, 8.3 and 1.9 percent, respectively. Both can be attributed to a reduction in equipment use due to another light winter and less work in the City parks for capital improvements. The fund saw its net assets decrease by 1.4 percent to \$434,616.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$8,322,253 (net of accumulated depreciation). This investment includes a broad range of assets. Overall there was a total decrease in the City's net investment in capital assets for the current fiscal year of \$249,339. The decrease was due to the excess of depreciation over capital assets acquired.

The largest capital acquisition during the year was a DPW dump truck and attachments costing \$73,930. Other additions included a fire department breathing apparatus and filling compressor acquired using chiefly FEMA grant funds, and additional voting equipment obtained through a state grant program.

Water and sewer capital additions totaled about \$21,000 during the year.

Additional information regarding the City's capital assets can be located in the Note 6 of the notes to basic financial statements.

City of Otsego
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Long-Term Debt:

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$659,292. Of this amount, \$139,292 comprises debt backed by the full faith and credit of the City. There is no debt backed by the limited full faith and credit of the City. Another \$520,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

The last rating the City received from Standard & Poor's for limited tax general obligation debt was a "BBB-" in 2002.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$139,292) is significantly lower than the current state-imposed limit of \$12,455,314 based upon 2006 property values.

Other long-term debt obligations totaling \$152,467 represent accrued compensated absences. Additional information is presented in Note 7 to the basic financial statements.

Economic Condition and Outlook

The City's General Fund budget for the next year projects no change in State Share Revenues. This comes after four years of increasingly reduced revenues from the State. Property tax revenues are projected to increase 1.2 percent or approximately \$15,720 overall. Although property tax revenues are projected to modestly increase for the 2006 tax year, taxable values have actually decreased over the past year. The increase in General Fund tax revenues occurred because property values within the DDA district have decreased more significantly than the city as a whole. This results in a lower TIF capture of taxes based upon property values within the DDA district. The lower values in the DDA district can be directly attributed to the closure of the Rock-Tenn Corporation and Menasha paper mills in 2004 and 2005, respectively. These plant closures resulted in the lower market values for industrial property for 2006. The Menasha paper mill, which was the City's largest taxpayer for the 2005 tax year, representing 23.6 percent of the tax base, was sold in June of 2006 to United States Gypsum. This plant is scheduled for conversion and updating and is expected to go back into production in 2008.

The City's component unit, the DDA, continues to design and plan for the eventual construction of a new department of public works facility in accordance with its development plan which expires in 2025. Construction is anticipated to begin in 2007 or 2008. Therefore, the DDA continues to accumulate funds by budgeting a 100 percent capture of revenues from tax increment financing within the district until sufficient funds are available to complete construction debt free. This capture results in a reduction to General Fund tax revenue and requires the continued consideration of cost saving measures such as delays or freezes in capital purchases, program reductions and/or staff reductions.

The City's utilities continue to increase their net assets, even during periods where decreases were expected. This demonstrates the very conservative and careful attention of management to maintenance and cost containment. Resources to continue infrastructure improvement and expansion are being used at a faster rate than excess revenues can replenish, however. This fact, along with lower consumer use than projected, caused an overall increase in sewer and water commodity rates from \$5.00 to \$5.35 for each 1,000 gallons of water used. This represents a 7.0 percent increase in commodity rates for the 2006-2007 fiscal year. The closure of the Menasha Corporation paper mill has also had a significant impact on the City's utility revenues. Before operations ended in 2005, the mill generated 18.7 percent of the sewer and water utility revenues. As previously mentioned, the new owner of the mill does not plan to resume operations until 2008. This required the increase in rates to maintain operations.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors and creditors, and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

Matthew Storbeck, Finance Director
City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

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INDEPENDENT AUDITORS' REPORT

City Commission
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 22 through 23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Otsego, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

August 10, 2006

BASIC FINANCIAL STATEMENTS

City of Otsego
STATEMENT OF NET ASSETS
June 30, 2006

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	
ASSETS				
Current assets				
Cash	\$ 2,547,996	\$ 1,343,264	\$ 3,891,260	\$ 325,594
Receivables, net	224,378	240,534	464,912	-
Internal balances	117,667	(117,667)	-	-
Due from component unit	1,562	5,091	6,653	-
Inventory	9,423	897,134	906,557	-
Prepaid costs	74,509	16,459	90,968	825
Total current assets	2,975,535	2,384,815	5,360,350	326,419
Noncurrent assets				
Restricted cash	-	322,272	322,272	-
Receivables, net	72,257	-	72,257	-
Capital assets, net of accumulated depreciation	3,727,604	4,594,649	8,322,253	1,313,275
Total non-current assets	3,799,861	4,916,921	8,716,782	1,313,275
Total assets	6,775,396	7,301,736	14,077,132	1,639,694
LIABILITIES				
Current liabilities				
Accounts payable	42,758	15,421	58,179	769
Accrued liabilities	41,919	17,178	59,097	991
Due to primary government	-	-	-	6,653
Customer deposits	10,228	-	10,228	-
Current portion of long-term obligations	-	192,454	192,454	-
Total current liabilities	94,905	225,053	319,958	8,413
Noncurrent liabilities				
Long-term obligations	111,224	508,081	619,305	-
Total liabilities	206,129	733,134	939,263	8,413
NET ASSETS				
Invested in capital assets, net of related debt	3,727,604	4,074,649	7,802,253	1,313,275
Restricted for:				
Bond retirement	-	197,272	197,272	-
Public safety	962	-	962	-
Public works	1,428,843	-	1,428,843	-
Unrestricted	1,411,858	2,296,681	3,708,539	318,006
Total net assets	\$ 6,569,267	\$ 6,568,602	\$ 13,137,869	\$ 1,631,281

See notes to the financial statements

City of Otsego
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>
Primary government			
Governmental activities:			
Legislative	\$ 10,500	\$ -	\$ -
General government	510,617	30,042	13,350
Public safety	1,022,188	124,164	106,153
Public works	673,033	26,967	341,268
Community and economic development	1,652	-	-
Parks and recreation	97,881	-	-
<i>Total governmental activities</i>	<u>2,315,871</u>	<u>181,173</u>	<u>460,771</u>
Business-type activities			
Land development	65,646	31,423	-
Sewer	489,211	587,586	-
Water	389,298	274,749	-
<i>Total business-type activities</i>	<u>944,155</u>	<u>893,758</u>	<u>-</u>
Total primary government	<u>\$ 3,260,026</u>	<u>\$ 1,074,931</u>	<u>\$ 460,771</u>
Component unit - DDA	<u>\$ 128,641</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues

Taxes
Public service tax
State shared revenue
Franchise fees
Investment income
Other
Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets			
Primary government			
Governmental activities	Business-type activities	Totals	Component unit
\$ (10,500)		\$ (10,500)	
(467,225)		(467,225)	
(791,871)		(791,871)	
(304,798)		(304,798)	
(1,652)		(1,652)	
(97,881)		(97,881)	
(1,673,927)		(1,673,927)	
-	(34,223)	(34,223)	
-	98,375	98,375	
-	(114,549)	(114,549)	
-	(50,397)	(50,397)	
(1,673,927)	(50,397)	(1,724,324)	
-	-	-	(128,641)
1,299,132	-	1,299,132	362,220
112,903	-	112,903	-
393,238	-	393,238	-
33,953	-	33,953	-
123,524	63,966	187,490	12,199
13,750	-	13,750	2,751
-	7,375	7,375	(7,375)
1,976,500	71,341	2,047,841	369,795
302,573	20,944	323,517	241,154
6,266,694	6,547,658	12,814,352	1,390,127
\$ 6,569,267	\$ 6,568,602	\$ 13,137,869	\$ 1,631,281

See notes to the financial statements

City of Otsego
BALANCE SHEET - governmental funds
June 30, 2006

	<u>General</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>
ASSETS			
Cash	\$ 874,003	\$ 613,922	\$ 289,645
Receivables	164,642	-	83,088
Prepaid expenses	63,688	-	66
Due from other funds	-	108,469	-
Total assets	<u>1,102,333</u>	<u>722,391</u>	<u>372,799</u>
LIABILITIES			
Payables	15,667	-	-
Accrued liabilities	60,167	-	-
Due to other funds	8,751	-	-
Due to other governmental units	19,866	-	-
Customer deposits	10,228	-	-
Deferred revenue	-	-	83,088
Total liabilities	<u>114,679</u>	<u>-</u>	<u>83,088</u>
FUND BALANCES			
Reserved for public safety	962	-	-
Unreserved:			
Designated for capital outlay	80,000	-	-
Undesignated	906,692	722,391	289,711
Undesignated, reported in nonmajor: special revenue funds	-	-	-
Total fund balances	<u>987,654</u>	<u>722,391</u>	<u>289,711</u>
Total liabilities and fund balances	<u>\$ 1,102,333</u>	<u>\$ 722,391</u>	<u>\$ 372,799</u>

Total fund balances - total governmental activities

Amounts reported for governmental activities (page 4) in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

Net assets of governmental activities

<u>Other governmental funds</u>	<u>Totals</u>
\$ 660,100	\$ 2,437,670
48,905	296,635
2,130	65,884
-	108,469
<u>711,135</u>	<u>2,908,658</u>
2,401	18,068
1,891	62,058
391	9,142
-	19,866
-	10,228
-	83,088
<u>4,683</u>	<u>202,450</u>
-	962
-	80,000
-	1,918,794
<u>706,452</u>	<u>706,452</u>
<u>706,452</u>	<u>2,706,208</u>
<u>\$ 711,135</u>	<u>\$ 2,908,658</u>
	\$ 2,706,208
	3,424,637
	83,088
	441,671
	<u>(86,337)</u>
	<u>\$ 6,569,267</u>

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - governmental funds
Year ended June 30, 2006

	<u>General</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
REVENUES					
Taxes	\$ 1,299,132	\$ -	\$ -	\$ -	\$ 1,299,132
Federal grants	103,644	-	-	-	103,644
State grants	408,147	-	-	283,053	691,200
Fines and forfeitures	21,066	-	-	-	21,066
Licenses and permits	45,893	-	-	-	45,893
Intergovernmental	90,158	112,903	-	12,383	215,444
Charges for services	43,070	-	-	-	43,070
Interest and rentals	58,604	27,023	13,526	22,728	121,881
Other	61,797	-	25,346	6,586	93,729
Total revenues	<u>2,131,511</u>	<u>139,926</u>	<u>38,872</u>	<u>324,750</u>	<u>2,635,059</u>
EXPENDITURES					
Legislative	10,500	-	-	-	10,500
General government	478,020	-	-	-	478,020
Public safety	929,230	-	-	-	929,230
Public works	457,403	-	-	165,081	622,484
Community and economic development	1,500	-	-	-	1,500
Recreation and culture - parks department	87,473	-	-	-	87,473
Capital outlay	42,513	-	-	-	42,513
Total expenditures	<u>2,006,639</u>	<u>-</u>	<u>-</u>	<u>165,081</u>	<u>2,171,720</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>124,872</u>	<u>139,926</u>	<u>38,872</u>	<u>159,669</u>	<u>463,339</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	3,360	3,360
Transfers out	-	(3,360)	-	-	(3,360)
Total other financing sources	<u>-</u>	<u>(3,360)</u>	<u>-</u>	<u>3,360</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>124,872</u>	<u>136,566</u>	<u>38,872</u>	<u>163,029</u>	<u>463,339</u>
FUND BALANCES - BEGINNING	<u>862,782</u>	<u>585,825</u>	<u>250,839</u>	<u>543,423</u>	<u>2,242,869</u>
FUND BALANCES - ENDING	<u>\$ 987,654</u>	<u>\$ 722,391</u>	<u>\$ 289,711</u>	<u>\$ 706,452</u>	<u>\$ 2,706,208</u>

Net change in fund balances - total governmental funds \$ 463,339

Amounts reported for *governmental activities* in the statement of activities (page 5) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded expenditures for capital assets in the current period. (129,476)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. (25,346)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (6,052)

The net revenue of certain activities of the internal service fund is reported with *governmental activities*. 108

Change in net assets of governmental activities \$ 302,573

City of Otsego
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2006

	Business-type activities - Enterprise Funds				Governmental activities
	Sewer	Water	Capital Project	Totals	DPW Equipment
ASSETS					
Current assets					
Cash	\$ 1,138,301	\$ 191,884	\$ 13,079	\$ 1,343,264	\$ 110,326
Receivables:					
Accounts	171,751	67,942	-	239,693	-
Interest	157	684	-	841	-
Due from other funds	2,857	-	-	2,857	11,826
Due from component unit	-	5,091	-	5,091	1,021
Inventory	369	29,987	866,778	897,134	9,422
Prepaid expenses	10,178	6,281	-	16,459	8,625
Total current assets	<u>1,323,613</u>	<u>301,869</u>	<u>879,857</u>	<u>2,505,339</u>	<u>141,220</u>
Noncurrent assets					
Restricted cash	243,603	78,669	-	322,272	-
Capital assets, net:					
Sewer system	2,895,063	-	-	2,895,063	-
Water system	-	1,699,586	-	1,699,586	-
Buildings and equipment	-	-	-	-	302,967
Total capital assets	<u>2,895,063</u>	<u>1,699,586</u>	<u>-</u>	<u>4,594,649</u>	<u>302,967</u>
Total noncurrent assets	<u>3,138,666</u>	<u>1,778,255</u>	<u>-</u>	<u>4,916,921</u>	<u>302,967</u>
Total assets	<u>4,462,279</u>	<u>2,080,124</u>	<u>879,857</u>	<u>7,422,260</u>	<u>444,187</u>
LIABILITIES					
Current liabilities					
Accounts payable	4,283	11,045	93	15,421	4,823
Accrued expenses	32,056	18,066	8,299	58,421	4,748
Due to other funds	815	4,726	108,469	114,010	-
Land contract - current	-	-	67,454	67,454	-
Bonds payable - current	110,000	15,000	-	125,000	-
Total current liabilities	<u>147,154</u>	<u>48,837</u>	<u>184,315</u>	<u>380,306</u>	<u>9,571</u>
Noncurrent liabilities					
Revenue bonds payable	250,000	145,000	-	395,000	-
Land contract payable	-	-	71,838	71,838	-
Total noncurrent liabilities	<u>250,000</u>	<u>145,000</u>	<u>71,838</u>	<u>466,838</u>	<u>-</u>
Total liabilities	<u>397,154</u>	<u>193,837</u>	<u>256,153</u>	<u>847,144</u>	<u>9,571</u>
NET ASSETS					
Investment in capital assets, net of related debt	2,535,063	1,539,586	-	4,074,649	302,967
Restricted bond retirement	133,603	63,669	-	197,272	-
Unrestricted, unallocated	1,396,459	283,032	623,704	2,303,195	131,649
Total net assets	<u>\$ 4,065,125</u>	<u>\$ 1,886,287</u>	<u>\$ 623,704</u>	<u>6,575,116</u>	<u>\$ 434,616</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(6,514)	
Net assets of business-type activities				<u>\$ 6,568,602</u>	

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - *proprietary funds*
Year ended June 30, 2006

	<i>Business-type activities - Enterprise Funds</i>				<i>Governmental activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Capital Project</i>	<i>Totals</i>	<i>DPW Equipment</i>
OPERATING REVENUES					
Charges for services	\$ 574,474	\$ 261,547	\$ 26,923	\$ 862,944	\$ 135,225
Other	13,112	13,202	4,500	30,814	17,890
Total operating revenues	587,586	274,749	31,423	893,758	153,115
OPERATING EXPENSES					
Mains	53,371	164,349	-	217,720	-
Wastewater treatment plant	250,529	-	-	250,529	-
Water pumping	-	90,444	-	90,444	-
Administration	61,684	60,580	-	122,264	-
Other	-	-	47,781	47,781	110,110
Depreciation	99,916	61,462	-	161,378	53,317
Total operating expenses	465,500	376,835	47,781	890,116	163,427
Operating income	122,086	(102,086)	(16,358)	3,642	(10,312)
NONOPERATING REVENUES (EXPENSES)					
Interest	53,300	9,854	812	63,966	4,108
Interest expense	(22,003)	(8,375)	(17,865)	(48,243)	-
Total nonoperating revenues (expenses)	31,297	1,479	(17,053)	15,723	4,108
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	153,383	(100,607)	(33,411)	19,365	(6,204)
OTHER FINANCING SOURCES					
Transfer from DDA	-	7,375	-	7,375	-
CHANGE IN NET ASSETS	153,383	(93,232)	(33,411)	26,740	(6,204)
TOTAL NET ASSETS - BEGINNING	3,911,742	1,979,519	657,115	6,548,376	440,820
TOTAL NET ASSETS - ENDING	\$ 4,065,125	\$ 1,886,287	\$ 623,704	\$ 6,575,116	\$ 434,616
Net change in net assets - total business-type activities				\$ 26,740	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(5,796)	
Change in net assets of business-type activities				\$ 20,944	

See notes to the financial statements

City of Otsego
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2006

	Business-type activities - Enterprise Funds				Governmental activities
	Sewer	Water	Capital Project	Totals	DPW Equipment
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 574,635	\$ 301,376	\$ 50,549	\$ 926,560	\$ 153,415
Payments to suppliers	(202,904)	(226,552)	(49,715)	(479,171)	(80,384)
Payments to employees	(165,665)	(84,324)	-	(249,989)	(30,656)
Net cash provided by operating activities	<u>206,066</u>	<u>(9,500)</u>	<u>834</u>	<u>197,400</u>	<u>42,375</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due to other funds	(5,154)	(8,556)	-	(13,710)	(1,203)
Principal payments on long-term debt	-	-	(63,336)	(63,336)	-
Transfer from component unit	-	7,375	-	7,375	-
Interest payments on long-term debt	-	-	(13,169)	(13,169)	-
Net cash provided by (used in) noncapital financing activities	<u>(5,154)</u>	<u>(1,181)</u>	<u>(76,505)</u>	<u>(82,840)</u>	<u>(1,203)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of fixed assets	-	-	-	-	-
Acquisition of capital assets	(18,617)	(2,285)	-	(20,902)	(73,930)
Principal payments on long-term debt	(105,000)	(15,000)	-	(120,000)	-
Interest payments on long-term debt	(22,959)	(8,374)	-	(31,333)	-
Net cash used in capital and related financing activities	<u>(146,576)</u>	<u>(25,659)</u>	<u>-</u>	<u>(172,235)</u>	<u>(73,930)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>54,846</u>	<u>10,857</u>	<u>812</u>	<u>66,515</u>	<u>4,108</u>
NET INCREASE (DECREASE) IN CASH	<u>109,182</u>	<u>(25,483)</u>	<u>(74,859)</u>	<u>8,840</u>	<u>(28,650)</u>
BALANCES - BEGINNING	<u>1,272,722</u>	<u>296,036</u>	<u>87,938</u>	<u>1,656,696</u>	<u>138,976</u>
BALANCES - ENDING	<u>\$ 1,381,904</u>	<u>\$ 270,553</u>	<u>\$ 13,079</u>	<u>\$ 1,665,536</u>	<u>\$ 110,326</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 122,086	\$ (102,086)	\$ (16,358)	\$ 3,642	\$ (10,312)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	99,916	61,462	-	161,378	53,317
(Increase) decrease in:					
Receivables, net	(10,094)	31,718	-	21,624	-
Due from other funds	(2,857)	-	-	(2,857)	826
Due from component unit	-	(5,091)	-	(5,091)	(526)
Inventory	-	(1,966)	19,126	17,160	(2,534)
Prepaid expenses	(3,453)	(3,159)	-	(6,612)	(668)
Increase (decrease) in:					
Accounts payable	(2,923)	9,419	(1,934)	4,562	1,056
Accrued liabilities	3,391	203	-	3,594	1,216
Net cash provided by operating activities	<u>\$ 206,066</u>	<u>\$ (9,500)</u>	<u>\$ 834</u>	<u>\$ 197,400</u>	<u>\$ 42,375</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - *fiduciary fund*
June 30, 2006

	<u>Agency Fund</u>
ASSETS	
Cash	\$ 1,500
Receivables - taxes	<u>1,190</u>
Total assets	<u>\$ 2,690</u>
LIABILITIES	
Due to other governmental units	\$ 1,190
Customer deposits	<u>1,500</u>
Total liabilities	<u>\$ 2,690</u>

See notes to the financial statements

City of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Otsego, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The City is governed by an elected five-member Commission. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is presented in a separate column in the combined financial statements to emphasize that it is legally separate from the City. Separate financial statements of the component unit have not been issued, as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit. The component unit's governing body is appointed by the City Commission and its budget must be approved by the City Commission.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Street and Bridge Fund accounts for the repairs and maintenance of streets and bridges not accounted for in other funds. Revenues are primarily derived from a county road millage.

The Special Assessment Capital Project Fund accounts for the construction or purchase of capital assets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewage system and treatment plant.

The Water Fund accounts for the operation of the City's water mains and pumping facilities.

The Capital Project Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the government reports the following fund types:

The internal service fund accounts for the DPW equipment assets and rentals by various City departments.

The agency fund accounts for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets other than infrastructure are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and Water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The City did not incur significant budget variances.

NOTE 3 - DEPOSITS:

The City's cash and cash equivalents, as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total primary government</u>	<u>Component unit</u>
Cash	\$2,547,546	\$1,343,264	\$1,500	\$3,892,310	\$325,594
Cash on hand	450	-	-	450	-
Restricted assets	-	<u>322,272</u>	-	<u>322,272</u>	-
Total cash	<u>\$2,547,996</u>	<u>\$1,665,536</u>	<u>\$1,500</u>	<u>\$4,215,032</u>	<u>\$325,594</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS (Continued):

Deposits with financial institutions:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) and the City's investment policy authorize the City to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The City's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2006, \$4,196,353 of the City's (including the component unit) bank balances of \$4,605,129 was exposed to custodial credit risk because it was uninsured. The City maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance has been allocated entirely to the primary government.

The City believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the City evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows:

	<i>Property taxes</i>	<i>Accounts</i>	<i>Interest</i>	<i>Special assessments</i>	<i>Inter- govern- mental</i>	<i>Totals</i>
Governmental funds:						
General Fund	\$ -	\$ 37,796	\$ 2,164	\$ -	\$ 124,682	\$ 164,642
Street and Bridge Fund	-	-	-	-	-	-
Special Assessments	-	-	-	-	-	-
Capital Improvement Fund	-	-	-	83,088	-	83,088
Nonmajor governmental funds	-	-	31	-	-	31
Total governmental funds	<u>\$ -</u>	<u>\$ 37,796</u>	<u>\$ 2,195</u>	<u>\$ 83,088</u>	<u>\$ 124,682</u>	<u>\$ 247,761</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,257</u>	<u>\$ -</u>	<u>\$ 72,257</u>
Proprietary funds:						
Sewer	\$ -	\$ 171,751	\$ 157	\$ -	\$ -	\$ 171,908
Water	-	67,942	684	-	-	68,626
Total proprietary funds	<u>\$ -</u>	<u>\$ 239,693</u>	<u>\$ 841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240,534</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the City for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ <u>772,498</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>772,498</u>
Capital assets being depreciated:				
Buildings	2,028,997	-	-	2,028,997
Improvements	870,236	5,600	-	875,836
Furniture, fixtures, and equipment	758,343	36,416	41,920	752,839
Vehicles	<u>1,143,255</u>	<u>73,930</u>	<u>-</u>	<u>1,217,185</u>
Subtotal	<u>4,800,831</u>	<u>115,946</u>	<u>41,920</u>	<u>4,874,857</u>
Less accumulated depreciation for:				
Buildings	399,692	42,538	-	442,230
Improvements	95,068	41,288	-	136,356
Furniture, fixtures, and equipment	550,028	56,074	41,920	564,182
Vehicles	<u>692,074</u>	<u>84,909</u>	<u>-</u>	<u>776,983</u>
Subtotal	<u>1,736,862</u>	<u>224,809</u>	<u>41,920</u>	<u>1,919,751</u>
Net capital assets being depreciated	<u>3,063,969</u>	<u>(108,863)</u>	<u>-</u>	<u>2,955,106</u>
Total capital assets - net of depreciation	<u>\$3,836,467</u>	<u>\$ (108,863)</u>	<u>\$ -</u>	<u>\$3,727,604</u>
Business-type activities:				
Capital assets not being depreciated - land	\$ <u>23,052</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,052</u>
Capital assets being depreciated:				
Sewer system	4,701,152	18,617	-	4,719,769
Water system	<u>2,497,845</u>	<u>2,285</u>	<u>-</u>	<u>2,500,130</u>
Subtotal	<u>7,198,997</u>	<u>20,902</u>	<u>-</u>	<u>7,219,899</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Less accumulated depreciation for:				
Sewer system	\$1,747,842	\$ 99,916	\$ -	\$1,847,758
Water system	<u>739,082</u>	<u>61,462</u>	<u>-</u>	<u>800,544</u>
Subtotal	<u>2,486,924</u>	<u>161,378</u>	<u>-</u>	<u>2,648,302</u>
Net capital assets being depreciated	<u>4,712,073</u>	<u>(140,476)</u>	<u>-</u>	<u>4,571,597</u>
Total capital assets - net of depreciation	<u>\$4,735,125</u>	<u>\$ (140,476)</u>	<u>\$ -</u>	<u>\$4,594,649</u>
Component unit:				
Capital assets not being depreciated:				
Land	\$ <u>98,069</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>98,069</u>
Capital assets being depreciated:				
Buildings/Improvements	<u>1,232,462</u>	<u>27,438</u>	<u>-</u>	<u>1,259,900</u>
Less accumulated depreciation for:				
Buildings/Improvements	<u>21,215</u>	<u>23,479</u>	<u>-</u>	<u>44,694</u>
Net capital assets being depreciated:	<u>1,211,247</u>	<u>3,959</u>	<u>-</u>	<u>1,215,206</u>
Total capital assets - net of depreciation	<u>\$ 1,309,316</u>	<u>\$ 3,959</u>	<u>\$ -</u>	<u>\$1,313,275</u>

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 31,673
Public safety	95,173
Public works	89,859
Recreation and culture	<u>8,104</u>
Total governmental activities	<u>\$224,809</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES:

Long-term liabilities at June 30, 2006, are comprised of the following individual issues:

Business-type activities:

\$550,000 installment purchase agreement - land contract payable in annual installments of \$59,471 to \$71,838, plus interest at 6.50%; final payment due July 2007.	\$ 139,292
\$400,000 1975 Water Supply System Revenue Bonds - payable in annual installments of \$15,000 to \$20,000, plus interest at 5.00%; final payment due January 2015.	160,000
\$945,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$65,000 to \$85,000, plus interest at 7.20%; final payment due November 2008.	240,000
\$455,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$30,000 to \$45,000, plus interest at 7.05% to 7.15%; final payment due November 2008.	<u>120,000</u>
Total business-type activities long-term liabilities	<u>\$ 659,292</u>

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Compensated absences	\$105,765	\$ 61,835	\$ (56,376)	\$111,224	-
Business-type activities:					
1975 revenue bonds	\$175,000	\$ -	\$ (15,000)	\$160,000	\$ 15,000
1989 revenue bonds	310,000	-	(70,000)	240,000	75,000
1989 revenue bonds	155,000	-	(35,000)	120,000	35,000
Eley IV land contract	202,628	-	(63,336)	139,292	67,454
Compensated absences	<u>39,076</u>	<u>50,242</u>	<u>(48,075)</u>	<u>41,243</u>	<u>-</u>
Business-type activities long-term activities	<u>\$881,704</u>	<u>\$ 50,242</u>	<u>\$(231,411)</u>	<u>\$700,535</u>	<u>\$192,454</u>

All debt is secured by the full faith and credit of the City.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

Debt service requirements at June 30, 2006, were as follows:

Year ended June 30:	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 192,454	\$36,370
2008	206,838	25,261
2009	145,000	10,463
2010	20,000	5,250
2011	20,000	4,250
2012 - 2015	<u>75,000</u>	<u>7,125</u>
Totals	<u>\$ 659,292</u>	<u>\$88,719</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
Sewer	<u>\$ 2,857</u>	Water	<u>\$ 2,857</u>
DPW Equipment	<u>11,826</u>	General	8,751
		Sewer	815
		Water	1,869
		Other governmental funds	<u>391</u>
			<u>11,826</u>
Street and Bridge	<u>108,469</u>	Capital Project	<u>108,469</u>
Total	<u>\$123,152</u>	Total	<u>\$123,152</u>

The interfund balance due to the Street and Bridge Fund from the Capital Project Fund represents a short-term loan to cover development inventory costs. Other interfund balances represent current amounts due for equipment charges in the DPW fund, and Water Fund expenses paid by the Sewer Fund.

A summary of interfund transfers for the year ended June 30, 2006, are as follows:

	<u>Transfer in</u>		<u>Transfer out</u>
Other governmental funds	<u>\$3,360</u>	Streets and Bridge	<u>\$3,360</u>

The transfer was used to move available unrestricted funds from Streets and Bridge to finance local street costs.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 9 - RETIREMENT PLAN:

The City maintains a defined contribution pension plan, which includes all of its full-time employees. The City contributes 10% of covered payroll to this plan on behalf of qualifying employees. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service.

The City made the required contributions of \$123,607 for the year ended June 30, 2006. The City is not a trustee of these plans, nor is the City responsible for investment management of plan assets.

NOTE 10 - CONTINGENT LIABILITIES:

The City is contingently liable to its employees for approximately \$281,000 in accumulated non-vested sick pay benefits.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	\$	11,203
Expenses		<u>14,852</u>
Excess of revenues over expenses	\$	<u>(3,649)</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Otsego
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 1,289,380	\$ 1,289,380	\$ 1,299,132	\$ 9,752
Federal grants	-	101,270	103,644	2,374
State grants	401,700	401,700	408,147	6,447
Fines and forfeitures	15,000	15,000	21,066	6,066
Licenses and permits	64,325	64,325	45,893	(18,432)
Intergovernmental	86,500	90,453	90,158	(295)
Charges for services	42,000	42,000	43,070	1,070
Interest and rentals	22,000	47,000	58,604	11,604
Other	44,300	49,300	61,797	12,497
Total revenues	<u>1,965,205</u>	<u>2,100,428</u>	<u>2,131,511</u>	<u>31,083</u>
EXPENDITURES				
Legislative	10,500	10,500	10,500	-
General government	486,375	487,975	478,020	9,955
Public safety	918,010	1,015,111	929,230	85,881
Public works	472,675	487,575	457,403	30,172
Community and economic development	900	2,300	1,500	800
Recreation and culture	115,755	117,990	87,473	30,517
Capital outlay	15,045	37,632	42,513	(4,881)
Total expenditures	<u>2,019,260</u>	<u>2,159,083</u>	<u>2,006,639</u>	<u>152,444</u>
NET CHANGE IN FUND BALANCE	(54,055)	(58,655)	124,872	183,527
FUND BALANCES - BEGINNING	<u>862,782</u>	<u>862,782</u>	<u>862,782</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 808,727</u>	<u>\$ 804,127</u>	<u>\$ 987,654</u>	<u>\$ 183,527</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Street and Bridge Fund**

Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Intergovernmental	\$ 110,000	\$ 110,000	\$ 112,903	\$ 2,903
Interest	<u>5,000</u>	<u>5,000</u>	<u>27,023</u>	<u>22,023</u>
Total revenues	115,000	115,000	139,926	24,926
OTHER FINANCING USES				
Transfer to Local Street Fund	<u>(3,360)</u>	<u>(3,360)</u>	<u>(3,360)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	118,360	118,360	143,286	24,926
FUND BALANCES - BEGINNING	<u>585,825</u>	<u>585,825</u>	<u>585,825</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 704,185</u>	<u>\$ 704,185</u>	<u>\$ 729,111</u>	<u>\$ 24,926</u>

SUPPLEMENTARY INFORMATION

City of Otsego**COMBINING BALANCE SHEET - non-major governmental funds**

June 30, 2006

	<u>Special revenue funds</u>		<u>Total non-major governmental funds</u>
	<u>Major Street</u>	<u>Local Street</u>	
ASSETS			
Cash	\$ 417,849	\$ 242,251	\$ 660,100
Receivables	-	31	31
Prepaid expenses	1,134	996	2,130
Due from other governmental units	<u>37,381</u>	<u>11,493</u>	<u>48,874</u>
Total assets	<u>\$ 456,364</u>	<u>\$ 254,771</u>	<u>\$ 711,135</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 1,072	\$ 1,329	\$ 2,401
Accrued liabilities	770	1,121	1,891
Due to other funds	<u>225</u>	<u>166</u>	<u>391</u>
Total liabilities	2,067	2,616	4,683
Fund balance, unrestricted	<u>454,297</u>	<u>252,155</u>	<u>706,452</u>
Total liabilities and fund balance	<u>\$ 456,364</u>	<u>\$ 254,771</u>	<u>\$ 711,135</u>

City of Otsego**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - non-major governmental funds**

Year ended June 30, 2006

	<u>Special revenue funds</u>		<u>Total non-major governmental funds</u>
	<u>Major Street</u>	<u>Local Street</u>	
REVENUES			
State grants	\$ 206,013	\$ 77,040	\$ 283,053
Intergovernmental	12,383	-	12,383
Interest	13,599	9,129	22,728
Other	894	5,692	6,586
	<u>232,889</u>	<u>91,861</u>	<u>324,750</u>
Total revenues			
EXPENDITURES			
Public works	<u>93,707</u>	<u>71,374</u>	<u>165,081</u>
EXCESS OF REVENUES OVER EXPENDITURES	139,182	20,487	159,669
OTHER FINANCING SOURCES			
Operating transfer in	<u>-</u>	<u>3,360</u>	<u>3,360</u>
NET CHANGE IN FUND BALANCE	139,182	23,847	163,029
FUND BALANCES - BEGINNING	<u>315,115</u>	<u>228,308</u>	<u>543,423</u>
FUND BALANCES - ENDING	<u>\$ 454,297</u>	<u>\$ 252,155</u>	<u>\$ 706,452</u>

City of Otsego
BALANCE SHEETS - governmental funds
June 30, 2006

	<u>General</u>	<u>Major Street</u>
ASSETS		
Cash	\$ 874,003	\$ 417,849
Receivables:		
Special assessments	-	-
Accounts	37,796	-
Interest	2,164	-
Prepaid expenses	63,688	1,134
Due from other funds	-	-
Due from other governmental units	<u>124,682</u>	<u>37,381</u>
 Total assets	 <u>\$ 1,102,333</u>	 <u>\$ 456,364</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 15,667	\$ 1,072
Accrued liabilities	60,167	770
Due to other funds	8,751	225
Due to other governmental units	19,866	-
Customer deposits	10,228	-
Deferred revenue	<u>-</u>	<u>-</u>
 Total liabilities	 <u>114,679</u>	 <u>2,067</u>
 Fund balance		
Reserved for public safety	962	-
Unreserved:		
Designated for fire truck	80,000	-
Undesignated	<u>906,692</u>	<u>454,297</u>
 Total fund balance	 <u>987,654</u>	 <u>454,297</u>
 Total liabilities and fund balance	 <u>\$ 1,102,333</u>	 <u>\$ 456,364</u>

<u>Local Street</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>
\$ 242,251	\$ 613,922	\$ 289,645
-	-	83,088
-	-	-
31	-	-
996	-	66
-	108,469	-
11,493	-	-
<u>\$ 254,771</u>	<u>\$ 722,391</u>	<u>\$ 372,799</u>
\$ 1,329	\$ -	\$ -
1,121	-	-
166	-	-
-	-	-
-	-	-
-	-	83,088
<u>2,616</u>	<u>-</u>	<u>83,088</u>
-	-	-
-	-	-
<u>252,155</u>	<u>722,391</u>	<u>289,711</u>
<u>252,155</u>	<u>722,391</u>	<u>289,711</u>
<u>\$ 254,771</u>	<u>\$ 722,391</u>	<u>\$ 372,799</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - General Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Taxes	\$ 1,289,380	\$ 1,299,132	\$ 9,752
Federal grants	101,270	103,644	2,374
State grants	401,700	408,147	6,447
Fines and forfeitures	15,000	21,066	6,066
Licenses and permits	64,325	45,893	(18,432)
Intergovernmental	90,453	90,158	(295)
Charges for services	42,000	43,070	1,070
Interest and rentals	47,000	58,604	11,604
Other	49,300	61,797	12,497
	<u>2,100,428</u>	<u>2,131,511</u>	<u>31,083</u>
Total revenues			
EXPENDITURES			
Legislative	<u>10,500</u>	<u>10,500</u>	<u>-</u>
General government:			
City manager	68,210	70,280	(2,070)
Elections	3,800	2,937	863
Assessor	21,975	20,010	1,965
Board of review	750	660	90
Treasurer/finance director	189,820	191,769	(1,949)
Building and grounds	39,495	37,076	2,419
Cemetery	57,630	54,948	2,682
Other administration	106,295	100,340	5,955
	<u>487,975</u>	<u>478,020</u>	<u>9,955</u>
Total general government			
Public safety:			
Police	771,125	697,147	73,978
Fire	216,721	217,231	(510)
Building inspections	27,265	14,852	12,413
	<u>1,015,111</u>	<u>929,230</u>	<u>85,881</u>
Total public safety			

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - General Fund(Continued)**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)			
Public works:			
Department of public works	\$ 74,955	\$ 64,440	\$ 10,515
General services	240,895	228,709	12,186
Sidewalks	14,730	6,489	8,241
Recycling	106,755	103,387	3,368
Transfer station	<u>50,240</u>	<u>54,378</u>	<u>(4,138)</u>
Total public works	<u>487,575</u>	<u>457,403</u>	<u>30,172</u>
Community and economic development	<u>2,300</u>	<u>1,500</u>	<u>800</u>
Recreation and culture:			
Parks and recreation	107,315	78,595	28,720
Community center	<u>10,675</u>	<u>8,878</u>	<u>1,797</u>
Total recreation and culture	<u>117,990</u>	<u>87,473</u>	<u>30,517</u>
Capital outlay	<u>37,632</u>	<u>42,513</u>	<u>(4,881)</u>
Total expenditures	<u>2,159,083</u>	<u>2,006,639</u>	<u>152,444</u>
NET CHANGE IN FUND BALANCE	(58,655)	124,872	183,527
FUND BALANCES - BEGINNING	<u>862,782</u>	<u>862,782</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 804,127</u>	<u>\$ 987,654</u>	<u>\$ 183,527</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 233,000	\$ 206,013	\$ (26,987)
Intergovernmental	18,000	12,383	(5,617)
Interest	3,000	13,599	10,599
Other	-	894	894
	<u>254,000</u>	<u>232,889</u>	<u>(21,111)</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	38,545	32,043	6,502
Sweeping	6,050	6,106	(56)
Shoulder maintenance	615	6	609
Trees and shrubs	7,650	7,231	419
Drainage	5,815	5,837	(22)
Bridge maintenance	2,885	13	2,872
Traffic signs and signals	5,255	2,607	2,648
Pavement marking	5,835	888	4,947
Winter maintenance	26,465	14,332	12,133
Administration	10,305	7,586	2,719
State trunk line maintenance	28,910	17,058	11,852
	<u>138,330</u>	<u>93,707</u>	<u>44,623</u>
Total expenditures			
NET CHANGE IN FUND BALANCE	115,670	139,182	23,512
FUND BALANCES - BEGINNING	<u>315,115</u>	<u>315,115</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 430,785</u>	<u>\$ 454,297</u>	<u>\$ 23,512</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - Local Street Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 80,430	\$ 77,040	\$ (3,390)
Interest	2,000	9,129	7,129
Other	-	5,692	5,692
Total revenues	<u>82,430</u>	<u>91,861</u>	<u>9,431</u>
EXPENDITURES			
Public works:			
Surface maintenance	38,345	24,045	14,300
Contracts	8,600	8,610	(10)
Shoulder maintenance	1,355	18	1,337
Trees and shrubs	18,535	13,194	5,341
Drainage	5,870	5,391	479
Roadside cleanup	-	(3)	3
Grass and weed control	365	4	361
Traffic signs and signals	3,595	1,823	1,772
Pavement marking	3,235	59	3,176
Winter maintenance	20,965	10,491	10,474
Administration	<u>11,340</u>	<u>7,742</u>	<u>3,598</u>
Total expenditures	<u>112,205</u>	<u>71,374</u>	<u>40,831</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(29,775)	20,487	50,262
OTHER FINANCING SOURCES			
Transfer from Street and Bridge Fund	<u>3,360</u>	<u>3,360</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(26,415)	23,847	50,262
FUND BALANCES - BEGINNING	<u>228,308</u>	<u>228,308</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 201,893</u>	<u>\$ 252,155</u>	<u>\$ 50,262</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *Street and Bridge Fund***

Year ended June 30, 2006

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Intergovernmental	\$ 110,000	\$ 112,903	\$ 2,903
Interest	<u>5,000</u>	<u>27,023</u>	<u>22,023</u>
Total revenues	115,000	139,926	24,926
OTHER FINANCING USES			
Transfer to Local Street Fund	<u>(3,360)</u>	<u>(3,360)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	111,640	136,566	24,926
FUND BALANCES - BEGINNING	<u>585,825</u>	<u>585,825</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 697,465</u>	<u>\$ 722,391</u>	<u>\$ 24,926</u>

City of Otsego

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL - Special Assessment Capital Project Fund

Year ended June 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Interest	\$ 7,500	\$ 13,526	\$ 6,026
Other - special assessment revenue	<u>18,000</u>	<u>25,346</u>	<u>7,346</u>
Total revenues	25,500	38,872	13,372
FUND BALANCES - BEGINNING	<u>250,839</u>	<u>250,839</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 276,339</u>	<u>\$ 289,711</u>	<u>\$ 13,372</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Sewer Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Charges for services	\$ 609,965	\$ 574,474	\$ (35,491)
Delinquent penalties	10,000	11,348	1,348
Other	-	1,764	1,764
	<u>619,965</u>	<u>587,586</u>	<u>(32,379)</u>
Total operating revenues			
OPERATING EXPENSES			
Mains	68,210	53,371	14,839
Wastewater treatment plant	275,370	250,529	24,841
Administration	57,965	61,684	(3,719)
Depreciation	100,375	99,916	459
	<u>501,920</u>	<u>465,500</u>	<u>36,420</u>
Total operating expenses			
OPERATING INCOME	<u>118,045</u>	<u>122,086</u>	<u>4,041</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	10,000	53,300	43,300
Interest expense	(22,960)	(22,003)	957
	<u>(12,960)</u>	<u>31,297</u>	<u>44,257</u>
Total nonoperating expenses			
CHANGE IN NET ASSETS	105,085	153,383	48,298
NET ASSETS - BEGINNING	<u>3,911,742</u>	<u>3,911,742</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 4,016,827</u>	<u>\$ 4,065,125</u>	<u>\$ 48,298</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Water Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Charges for services	\$ 412,850	\$ 261,547	\$ (151,303)
Hydrant rentals	6,370	6,370	-
Delinquent penalties	3,600	3,863	263
Other	-	2,969	2,969
Total operating revenues	<u>422,820</u>	<u>274,749</u>	<u>(148,071)</u>
OPERATING EXPENSES			
Mains	159,395	164,349	(4,954)
Water pumping	112,780	90,444	22,336
Administration	67,190	60,580	6,610
Depreciation	<u>47,900</u>	<u>61,462</u>	<u>(13,562)</u>
Total operating expenses	<u>387,265</u>	<u>376,835</u>	<u>10,430</u>
OPERATING LOSS	<u>35,555</u>	<u>(102,086)</u>	<u>(137,641)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	3,000	9,854	6,854
Interest expense	<u>(8,375)</u>	<u>(8,375)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(5,375)</u>	<u>1,479</u>	<u>6,854</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>30,180</u>	<u>(100,607)</u>	<u>(130,787)</u>
OTHER FINANCING SOURCES			
Transfer from DDA	<u>-</u>	<u>7,375</u>	<u>7,375</u>
CHANGE IN NET ASSETS	<u>30,180</u>	<u>(93,232)</u>	<u>(130,787)</u>
NET ASSETS - BEGINNING	<u>1,979,519</u>	<u>1,979,519</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 2,009,699</u>	<u>\$ 1,886,287</u>	<u>\$ (130,787)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Capital Project Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 260,000	\$ 26,923	\$ (233,077)
Other	<u>-</u>	<u>4,500</u>	<u>4,500</u>
Total operating revenues	<u>260,000</u>	<u>31,423</u>	<u>(228,577)</u>
OPERATING EXPENSES			
Cost of developed lots	200,000	19,126	180,874
Legal expense	500	992	(492)
Advertising	-	353	(353)
Property taxes	<u>29,360</u>	<u>27,310</u>	<u>2,050</u>
Total operating expenses	<u>229,860</u>	<u>47,781</u>	<u>182,079</u>
OPERATING INCOME	<u>30,140</u>	<u>(16,358)</u>	<u>(410,656)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	812	812
Interest expense	<u>(13,175)</u>	<u>(17,865)</u>	<u>(4,690)</u>
Total nonoperating expenses	<u>(13,175)</u>	<u>(17,053)</u>	<u>(3,878)</u>
CHANGE IN NET ASSETS	16,965	(33,411)	(414,534)
NET ASSETS - BEGINNING	<u>657,115</u>	<u>657,115</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 674,080</u>	<u>\$ 623,704</u>	<u>\$ (414,534)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - DPW Equipment Fund**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Equipment rental	\$ 155,000	\$ 135,225	\$ (19,775)
Reimbursements	<u>12,000</u>	<u>17,890</u>	<u>5,890</u>
Total operating revenues	<u>167,000</u>	<u>153,115</u>	<u>(13,885)</u>
OPERATING EXPENSES			
Equipment pool operations	115,350	110,110	5,240
Depreciation	<u>45,000</u>	<u>53,317</u>	<u>(8,317)</u>
Total operating expenses	<u>160,350</u>	<u>163,427</u>	<u>(3,077)</u>
OPERATING INCOME	<u>6,650</u>	<u>(10,312)</u>	<u>(16,962)</u>
NONOPERATING REVENUES			
Interest income	1,000	4,108	3,108
Gain on sale of fixed assets	<u>5,000</u>	<u>-</u>	<u>(5,000)</u>
Total nonoperating revenues	<u>6,000</u>	<u>4,108</u>	<u>(1,892)</u>
CHANGE IN NET ASSETS	12,650	(6,204)	(18,854)
NET ASSETS - BEGINNING	<u>440,820</u>	<u>440,820</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 453,470</u>	<u>\$ 434,616</u>	<u>\$ (18,854)</u>

City of Otsego
BALANCE SHEET - Downtown Development Authority
June 30, 2006

ASSETS

Cash	\$ 325,594
Prepaid expenses	<u>825</u>
Total assets	<u>\$ 326,419</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 770
Accrued liabilities	712
Due to primary government	<u>6,112</u>

Total liabilities 7,594

Fund balance, unrestricted 318,825

Total liabilities and fund balance \$ 326,419

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Downtown Development Authority**

Year ended June 30, 2006

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Tax increment financing	\$ 375,000	\$ 362,220	\$ (12,780)
Memorial tree program	1,000	65	(935)
Interest income	4,000	12,199	8,199
Other	-	2,686	2,686
	<u>380,000</u>	<u>377,170</u>	<u>(2,830)</u>
Total revenues			
	<u>380,000</u>	<u>377,170</u>	<u>(2,830)</u>
EXPENDITURES			
Public works - District administration	96,270	104,683	(8,413)
Capital outlay	<u>540,000</u>	<u>27,438</u>	<u>512,562</u>
	<u>636,270</u>	<u>132,121</u>	<u>504,149</u>
Total expenditures			
	<u>636,270</u>	<u>132,121</u>	<u>504,149</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(256,270)	245,049	501,319
OTHER FINAINCING USES:			
Transfer to Water Fund	-	(7,375)	(7,375)
	<u>-</u>	<u>(7,375)</u>	<u>(7,375)</u>
NET CHANGE IN FUND BALANCE	(256,270)	237,674	493,944
FUND BALANCES - BEGINNING	<u>81,153</u>	<u>81,153</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ (175,117)</u>	<u>\$ 318,827</u>	<u>\$ 493,944</u>